

1 The Honorable Karen A. Overstreet
2 Chapter 13
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UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

In re

JEFFREY DONALD WHEELER and CINDY
MARIE WHEELER,

Debtors.

Bankruptcy No.: 04-23643

JEFFREY DONALD WHEELER and
CINDY MARIE WHEELER, and the
MARITAL ESTATE COMPOSED
THEREOF,

Plaintiffs,

v.

Adversary No. 04-01550-KAO

SECOND AMENDED COMPLAINT TO
DETERMINE THE VALIDITY,
PRIORITY, OR EXTENT OF A LIEN,
TO OBTAIN INJUNCTIVE RELIEF
AND DAMAGES

FREMONT INVESTMENT & LOAN d/b/a
FREMONT INVESTMENT LOAN
COMPANY, a Washington corporation;
DEUTSCHE BANK NATIONAL TRUST, a
Delaware corporation; LITTON LOAN
SERVICING LP, a Washington limited
partnership; MORTGAGE ONE &
ASSOCIATES, INC., a Washington
Corporation; NORTHWEST TRUSTEE
SERVICES, PLLC, a Washington professional

SECOND AMENDED COMPLAINT
Page 1 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1112 E. Columbia
Seattle, Washington 98122-4340
Phone: (206) 398-4130

1 limited liability corporation, JP Morgan Chase
2 Bank as Trustee for the Home Equity Trust
3 Series 2002-4, a New York Corporation, and
4 Home Equity Trust Series 2002-4, an unknown
foreign entity

5 Defendants.
6

7 Jeffrey Donald Wheeler and Cindy Marie Wheeler, (the "Wheelers"), the debtors
8 in-possession in this Chapter 13 case, allege as follows:

9 **I. INTRODUCTION**

10 The Wheelers claim that the Defendants' joint and several acts constituted
11 violations of the federal Truth in Lending Act, the federal Real Estate Settlement
12 Procedures Act, and Washington consumer laws, including 19.86 RCW (the "Consumer
13 Protection Act") and amount to fraud, negligence, unjust enrichment, and other common
14 law wrongs in the making of the loan. Having properly rescinded the transactions and the
15 security interests in their home, the Wheelers ask that this Court declare that the loan and
16 the deed of trust are void and invalid. The Wheelers also ask that the Court order
17 payment of damages, costs and attorneys fees for the Defendants' joint and several
18 unlawful acts, enjoin the foreclosure sale of their home and enjoin Defendants from
19 engaging in similar conduct in violation of the Washington Consumer Protection Act.
20
21

22 **II. JURISDICTION**

23 2.1 The Wheelers filed a voluntary bankruptcy petition under Chapter 13 of
24 the United States Bankruptcy Code on October 21, 2004 (the "Petition Date").
25
26

27 **SECOND AMENDED COMPLAINT**
Page 2 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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2.2 Pre-petition, the Wheelers filed a Complaint for Injunctive Relief and Damages in the Superior Court of the State of Washington, County of King, Cause No. 04-2-06731-6KNT, Jeffrey Donald Wheeler and Cindy Marie Wheeler vs. Fremont Investment & Loan et al (“State Court Complaint”).

2.3 On November 10, 2004, the Debtors removed the State Court Complaint to the Western District of Washington Bankruptcy Court in Seattle.

2.4 This Court has jurisdiction over the removed action under adversary proceeding 04-01550-KAO, pursuant to 28 U.S.C. §§ 157, 1334, 2201, 11 U.S.C. §§ 544, 502, 510, 550, and GR 7.1.01 of the Rules of the United States District Court for the Western District of Washington, and Federal Rule of Bankruptcy Procedure 7001.

2.5 This is a core proceeding over which this Court has jurisdiction pursuant to 28 U.S.C. §§ 157(b)(2)(A), (B), (E), and (K).

2.6 Venue for this adversary proceeding is proper pursuant to 28 U.S.C. §§ 1408 and 1409(a).

III. PARTIES

3.1 Jeffrey Donald Wheeler is a natural person and is a resident of King County, Washington, and is a "person," "consumer," or "borrower," within the meaning of all statutes and laws applicable herein.

3.2 Cindy Marie Wheeler is a natural person and is a resident of King County, Washington, and is a "person," "consumer," or "borrower," within the meaning of all statutes and laws applicable herein.

SECOND AMENDED COMPLAINT
Page 3 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 3.3 Defendant Fremont Investment & Loan is believed to be a corporation
2 based in California, is licensed and bonded to operate business throughout the State of
3 Washington, and took a security interest in real property located at 425 SW 5th Place,
4 Renton, Washington in King County (hereinafter "Property"). The Property's legal
5 description follows:
6

7 Lots 6 and 7 in block 16 of Earlington, as per plat recorded
8 in volume 14 of plats, page 7, records of King County
9 Auditor; Except a portion lying northerly of the southerly
10 boundary of the certain strip of land deeded to the city of
11 Renton for street purposes under recording no.
12 8208110369; Together with that portion of the alley
13 adjoining on the south vacated under city of Renton
14 ordinance no 3650, as attached said premises by operation
15 of law; Situate in the city of Renton, county of King, state
16 of Washington.

17 3.4 Defendant Fremont Investment & Loan, at all times relevant hereto,
18 regularly extended or offered to extend consumer credit for which a finance charge is or
19 may be imposed or which, by written agreement, is payable in more than four
20 installments, and is the entity to which the subject transaction is initially payable, making
21 the Defendant a creditor within the meaning of TILA, 15 U.S.C. § 1602(f) and
22 Regulation Z § 226.2(a) (17).

23 3.5 Defendant Fremont Investment & Loan is a licensee under R.C.W.
24 31.04.015, and an affiliate within the meaning of R.C.W. 19.146.010.

25 3.6 Defendant Deutsche Bank National Trust is believed to be a corporation
26 based in Delaware that was assigned the First Note and Deed of Trust (explained below)
27 from defendant Fremont Loan and currently is the holder of that note and deed of trust.

28 SECOND AMENDED COMPLAINT
29 Page 4 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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Seattle, Washington 98122-4340
Phone: (206) 398-4130
Fax: (206) 394-4146

1 3.7 Defendant Litton Loan Servicing LP is believed to be a corporation based
2 in the state of Texas. Defendant Litton Loan Servicing LP has a contractual relationship
3 with defendant Deutsche Bank to both service its loan and to represent defendant
4 Deutsche Bank in any matter connected with that loan and deed of trust.
5

6 3.08 Defendant Mortgage One & Associates, Inc. ("Mortgage One") is believed
7 to be a Washington corporation doing business at 1429 Market Street, Kirkland,
8 Washington, licensed and bonded to conduct business in Washington.

9 3.09 Defendant Mortgage One is a broker or affiliate within the meaning of
10 R.C.W. 19.146.010.

11 3.10 Defendant Northwest Trustee Services, PLLC, is believed to be a
12 Washington corporation, with offices at 3535 Factoria Boulevard, Suite 200, Bellevue,
13 Washington, and is the trustee for the deed of trust in the Property currently held by
14 defendant Deutsche Bank.

15 3.11 Defendant JP Morgan Chase Bank is believed to be a New York
16 Corporation, with offices at 270 Park Ave, Suite 3500, New York, NY, 10017. JP
17 Morgan Chase Bank is believed to be the trustee for Home Equity Trust Series 2002-4.
18

19 3.12 Defendant Home Equity Trust Series 2002-4 is an unknown foreign entity
20 which is believed to be the holder of the promissory note of the Second Loan, previously
21 held by Fremont Loan.

22 **IV. FACTUAL BACKGROUND**

23 4.1 Jeffrey Donald Wheeler and Cindy Marie Wheeler are a married couple
24 residing in King County, Washington.
25

26 **SECOND AMENDED COMPLAINT**

27 Page 5 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 4.2 Jeffrey Wheeler has been diagnosed as being developmentally disabled
2 since childhood. Cindy Wheeler is developmentally disabled, also diagnosed since
3 childhood.
4

5 4.3 Both receive counseling from ARC, a non-profit organization that
6 provides assistance to developmentally disabled persons.
7

8 4.4 Cindy Wheeler also receives services through the Department of Social
9 and Health Services, Department of Developmental Disabilities and the Department of
10 Vocational Rehabilitation.
11

12 4.5 In both cases, their disabilities are open and apparent to a casual observer
13 who engages either of the Debtors in conversation.
14

15 4.6 Jeffrey Wheeler is self employed as a truck driver, operating his truck as a
16 subcontractor.
17

18 4.7 Cindy Wheeler was employed at the Renton Waste Water treatment
19 facility until December 2001.
20

21 4.8 On October 16, 1996, the Wheelers purchased a home at 425 SW 5th
22 Place, in Renton, Washington, the legal description of such was described in part II,
23 paragraph 3 above.
24

25 4.9 The home was initially purchased through a loan made by the Washington
26 Mutual bank.
27

28 4.10 The Wheelers financed \$128,907.13 at an initial variable interest rate
starting at 8.977%. Payments were anticipated to be \$1,029.53 beginning on January 1,
29
30

31 SECOND AMENDED COMPLAINT
32 Page 6 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
33

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1 1997, and were to be subsequently adjusted to \$1,091.03 on January 1, 2002. Actual
2 payments were \$1,198.46, including taxes and insurance, adjusted to \$1,133.21 by
3 November 11, 2001.
4

5 4.11 Cindy Wheeler lost her job at the Renton Waste Water treatment facility in
6 December of 2001, and the Debtors were concerned about their being able to continue to
7 pay their consumer debt on the income generated by Jeffrey Wheeler alone.

8 4.12 Consequently, in January 2002, the Wheelers applied to refinance their
9 home loan through New Century Mortgage Corporation, using Consolidated Mortgage as
10 their broker.

11 4.13 This first refinanced loan, (hereafter "*First Refinance*"), which included
12 monies paid to the Debtors to pay off consumer debt, had a principal of \$165,000.
13

14 4.14 This *First Refinance* loan had an adjustable interest rate, with an initial
15 interest rate of 8.99%. Included in the loan documents for the *First Refinance* was a
16 Prepayment Rider.

17 4.15 Sometime in late February or early March, 2002, the Wheelers were called
18 by Tony Oh, who represented himself as a mortgage specialist under the business name
19 BD Enterprise.
20

21 4.16 The Wheelers were approached about re-financing their home to pay off
22 their current mortgage (not yet one month old) and their car loan, in order to further
23 lower their overall monthly debt payments. Their car payment was particularly high
24 because of the three year duration.
25
26

27 SECOND AMENDED COMPLAINT
Page 7 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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1 4.17 In that telephone conversation, the Debtors answered questions and gave
2 financial information to Tony Oh with the understanding that Tony Oh would use the
3 information to prepare a loan application for their consideration.
4

5 4.18 Tony Oh subsequently visited the Debtors at their home, providing them
6 with loan applications already filled out. At that meeting, the Debtors were assured that
7 refinancing their home loan a second time (hereafter "*Second Refinance*") and paying off
8 their car loan could reduce their payments and be beneficial to them.

9 4.19 At no time were they given any warning that, as a result of moving their
10 car loan under the secured umbrella of their home mortgage, a default on this underlying
11 debt would now result in foreclosure on their home, rather than simply a judgment and
12 possible repossession of their car.
13

14 4.20 Mr. Oh also did not explain to the Wheelers at this time that in order to re-
15 finance their home again and pay off their car debt, they would have to pay upwards of
16 \$12,000 in additional costs and fees.

17 4.21 Mr. Oh, as mortgage broker, did not discuss with the Wheelers the
18 possibility of securing a small loan to pay off only their car loan, secured by a second
19 deed of trust on their home or a lien on their car. He discussed only a total refinancing of
20 their home as the means to lower their monthly debt payments.
21

22 4.22 Due to the nature of the Wheelers' disabilities, the Wheelers placed a
23 greater than normal reliance on the representations and acts of Tony Oh.
24

25
26 SECOND AMENDED COMPLAINT
27 Page 8 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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1 4.23 The Wheelers were told that the documents would be taken somewhere in
2 Issaquah for approval.
3

4 4.24 Over the period of some two months during which these loans were
5 processed and pending, the Wheelers received numerous disclosure documents; however,
6 given their disability and the changing nature of the information contained in these
7 documents (as described below), they never fully understood the nature, terms or
8 consequences of the contracts that they ultimately signed.

9 4.25 Two Uniform Residential loan applications, prepared by a Jason Bartlett,
10 who is identified as an employee of Mortgage One, were completed for the Wheelers.
11 One application was for a loan in the amount of \$157,600 (hereinafter referred to as the
12 “First Loan”) at 9.35% and the other was for \$39,400 (hereinafter referred to as the
13 “Second Loan”) at 12.99%.

15 4.26 Section IV of both loan applications states that Jeff Wheeler is self-
16 employed and that Cindy Wheeler is unemployed.

17 4.27 Section V of the loan application form reports monthly income and
18 combined housing expense information.

19 4.28 Section V of the form for the Second Loan has a typed-in number of
20 \$6500.00 as the Wheelers total monthly income. (This section is missing from the
21 unsigned copy of the First Loan application in the Wheelers’ possession.)

23 4.29 On the Wheelers’ joint 2001 tax return, dated March 9, 2002, the
24 Wheelers show an adjusted gross income of \$51, 696.00, or \$4308 per month.

26 SECOND AMENDED COMPLAINT
27 Page 9 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 4.30 However, Cindy Wheeler ceased working in December of 2001, as is
2 reflected on the loan application forms employment listing. Thus the Wheelers' actual
3 monthly income at that time was closer to \$2,000 per month.
4

5 4.31 The Wheelers received an initial Good Faith Estimate ("Estimate") dated
6 March 1, 2004 for the First Loan. This Estimate disclosed a loan amount of \$157,600
7 and an interest rate of 9.35%, with a monthly payment of \$1307.97. It also disclosed a
8 total of \$11,808.43 in closing costs and prepaid items, including:

9	• Loan origination fee of 5%	\$9,750.00
10	• Processing Fee	\$499.00
11	• Administration/Warehouse fee	\$175.00
12	• Miscellaneous Lenders Fee	\$379.00
13	• Escrow Fee	\$450.00
14	• Credit Report	\$25.00
15	• Prepaid Interest	\$213.43
16	• Title Insurance	\$324.00
17	• Recording Fees	\$18.00
18		
19		

20 4.32 This Estimate showed the lender to be Mortgage One.

21 4.33 An appraisal was commissioned for the Property for Mortgage One, and
22 prospective borrowers Jeffrey and Cindy Wheeler. The Uniform Residential Appraisal
23 Report dated April 27, 2002 and performed by Boyakins Appraisal Service, assigned a
24

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26 SECOND AMENDED COMPLAINT
27 Page 10 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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1 current value to the Property of \$195,000, through use of the indicated value by costs
2 method, and of \$197,000 using the sales comparison approach.
3

4 4.34 A letter was sent to the Wheelers dated May 15, 2002, from Fremont
5 Investment & Loan indicating that their application for credit had been submitted to
6 Fremont by Mortgage One for a loan at an initial interest rate of 8.6% and that this loan
7 application had recently been processed.
8

9 4.35 This letter included a TILA disclosure and an Estimate, among other
disclosures.
10

11 4.36 This TILA disclosure showed an Annual Percentage Rate ("APR") of
12 9.151% on a loan amount of \$155,740.87 [presumably the First Loan], with an initial
13 monthly payment of \$1223, increasing to \$1280.30 in 2004.
14

15 4.37 The Estimate accompanying the May 15 letter showed costs and fees of
only \$1,859.13, as follows:
16

• Lender Origination Fee	\$599.00
• Prepaid interest	\$37.13
• Underwriting Fee	\$400.00
• Escrow/Closing Agent Fee	\$750.00
• Flood Certification Fee	\$13.00

22 4.38 Another TILA disclosure for the First Loan, dated May 17, 2002 and
23 given as the final terms, changed the APR to 10.99% and reduced the amount financed to
24
25
26

27 SECOND AMENDED COMPLAINT
Page 11 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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1 \$146,584.51. The payment structure is changed to a total of 360 payments, starting at
2 \$1307.98. No Estimate accompanied this TILA disclosure.
3

4 4.39 But on the HUD-1 Estimated Settlement Statement, the amount financed
5 on the First Loan was again back to \$157,600 (the eventual amount on the First Loan
6 note) with costs and fees of \$13,714.76, nearly 15% higher than on the original Estimate
7 of March 1, 2002 and significantly higher than the Estimate provided with the May 15
8 letter.
9

10 4.40 The Wheelers did not receive a March 1 Estimate for the Second Loan, as
11 they had for the First Loan, or a letter from Fremont Investment & Loan in mid-May with
12 respect to their application for the Second Loan.
13

14 4.41 They did receive a TILA disclosure for the Second Loan dated
15 May 17, 2002, which shows a loan amount of 39,385.98 with an APR of 12.997% and
16 monthly payments of \$498.25.
17

18 4.42 An Itemization of Amount Financed for the Second Loan, dated
19 May 17, 2002, indicates pre-paid finance charges of only \$14.02 for pre-paid interest,
20 with no fees for the escrow agent or for a loan origination fee.
21

22 4.43 The HUD-1 Estimated Settlement Statement for the Second Loan,
23 however, shows fees of \$733.92, including \$140.20 in pre-paid interest and nearly \$400
24 to the escrow agent.
25

26 4.44 The Wheelers eventually signed two notes with Fremont Investment &
27 Loan. The First Loan was for an amount of \$157,600, and the Second Loan was for
28

SECOND AMENDED COMPLAINT

Page 12 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

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1 \$39,400. For each loan, they provided a deed of trust to their home in favor of Fremont
2 Investment & Loan. The *Second Refinance* closed on May 24, 2003 through McGrath
3 Escrow, Inc.

4 4.45 Following the closing, the Wheelers were given four copies of their Right
5 to Rescind their Second Loan. However, they were given only one copy of their Right to
6 Rescind their First Loan.

7 4.46 The Wheelers were never provided with any of the disclosures that are
8 required under the Home Ownership and Equity Protection Act.

9 4.47 The Wheelers were never sent conformed copies of any of the documents
10 signed at closing or a final HUD-1 Settlement Statement for either the First Loan or
11 Second Loan.

12 4.48 The First Loan was then sold to Defendant Litton, and the Second Loan
13 was serviced by Defendant Ocwen and subsequently by Wilshire Credit Organization
14 Services.

15 4.49 Given that Jeff Wheeler only earned a net income of less than \$2,000 per
16 month and Cindy Wheeler remained unemployed, the Debtors were unable to keep up
17 with their payments, totaling over \$1800, on these two notes.

18 4.50 Consequently, they were given notice of a non-judicial foreclosure of the
19 Property by Northwest Trustee Services, the trustee of the deed of trust for the First Loan
20 assigned to defendant Deutsche Bank and serviced by Litton.

21 26 SECOND AMENDED COMPLAINT
22 27 Page 13 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

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4.51 Defendant Litton agreed to voluntarily stop the foreclosure sale pending resolution of the state court litigation.

4.52 Either shortly before or after the filing of the Chapter 13 bankruptcy, Fremont Investment & Loan sold the Second Loan to Home Equity Trust Series 2002-4, JP Morgan Chase Bank as Trustee for the Home Equity Trust Series 2002-4, or some related entity unknown to Plaintiffs at this time.

4.53 The information regarding the sale of the Second Loan was not known to the plaintiffs or their counsel until Chase filed a proof of claim in the bankruptcy matter.

V. FIRST CAUSE OF ACTION:

RESCISSION AND VIOLATIONS OF FEDERAL TRUTH IN LENDING ACT

5.1 The consumer credit transactions involved in the First Loan described above were subject to the Wheelers' right of rescission as described in 15 U.S.C. § 1635 and Regulation Z § 226.23 (12 C.F.R. § 226.23).

5.2 In the course of this consumer credit transaction, Defendant lender Fremont Investment & Loan and its agents or affiliates violated 15 U.S.C. § 1635(a) and Regulation Z § 226.23(b) by failing to deliver two copies of the Notice of the Right to Rescind and one copy of the TILA disclosures to Cindy and Jeffrey Wheeler.

5.3 Pursuant to 15 U.S.C. § 1641, the assignees of the original lender, Litton
Loan Servicing LP and Ocwen Federal Savings Bank FSB, are liable for any facial
violations of TILA's disclosure requirements.

SECOND AMENDED COMPLAINT
Page 14 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 5.4 The Wheelers have a continuing right to rescind the transaction until the
2 third business day after receiving the required number of notices and all "material"
3 disclosures described in paragraph 2, pursuant to 15 U.S.C. § 1635(a) and Regulation Z
4 § 226.23(a)(3).
5

6 5.5 In addition, the Wheelers have a right to rescind the transaction for a
7 period of three years after consummation because other material disclosures required
8 under the Home Ownership and Equity Protection Act were not made, as alleged below.

9 5.6 On March 12, 2004, the Wheelers exercised their right to rescind the
10 transaction by sending to Defendants Fremont Investment & Loan, Litton Loan Servicing
11 LP, and Ocwen Federal Savings Bank FSB, by certified mail, return receipt requested, by
12 FAX, and by Federal Express, a notice of rescission.
13

14 5.7 Service is considered to be made when the rescission is mailed pursuant to
15 Regulation Z §§ 226.15(a)(2), 226.23.(a)(2).

16 5.8 As a result of the aforesaid violations of the Act and Regulation Z,
17 pursuant to 15 U.S.C. §§ 1635(a) and 1640(a), and the Notice of Rescission served by the
18 Wheelers. Debtors are entitled to:

- 19 a. Rescission of this transaction;
- 20 b. Termination of any security interest in the Wheelers' property created
21 under the transaction;
- 22 c. Return of any money or property given by the Wheelers to anyone,
23 including the Defendants, in connection with this transaction;
- 24 d. Twice the finance charge in connection with this transaction, but not
25 less than \$200 or more than \$2,000;

26 SECOND AMENDED COMPLAINT

27 Page 15 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

28 SEATTLE UNIVERSITY
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- e. Actual damages in an amount to be determined at trial; and
- f. A reasonable attorney's fee.

VI. SECOND CAUSE OF ACTION:

VIOLATIONS OF HOME OWNERSHIP EQUITY PROTECTION ACT (HOEPA)

6.1 The above-mentioned consumer credit transactions were high rate mortgages within the meaning of HOEPA, 15 U.S.C. § 1602(aa)(1)(B), in that the total "points and fees" Defendant Fremont Investment & Loan and its agents or affiliates charged Debtors exceeded 8% of the total loan amount.

6.2 Pursuant to 15 U.S.C. § 1641, the assignees of the original lender, Litton
Loan Servicing LP and Ocwen Federal Savings Bank FSB, are liable for any facial
violations of HOEPA's disclosure requirements.

6.3 Defendant Fremont Investment & Loan and its agents or affiliates have extended to the Wheelers high rate mortgages, as defined by 15 U.S.C. § 1602(aa), based on their collateral without regard to their repayment ability, including their current and expected income, current obligations and employment in violation of 15 U.S.C. § 1639(h).

6.4 Because the transactions described herein met the HOEPA definition of a high rate mortgage, the transactions were subject to additional disclosure requirements that must be provided three days in advance of the consummation of the transaction Pursuant to 15 U.S.C. § 1639(b).

SECOND AMENDED COMPLAINT
Page 16 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 6.5 Defendant Fremont Investment & Loan and its agents or affiliates did not
2 furnish the required HOEPA disclosures to the Wheelers three days prior to their
3 settlement.
4

5 6.6 The loan extended to the Wheelers included a prepayment penalty in
6 violation of 15 U.S.C. §1639(c).
7

8 6.7 The disclosure violations of HOEPA listed above also trigger the right to
9 rescind the transaction up to three years from consummation, and the Wheelers have
10 exercised their right to rescind, as described in Part V, Section A, Paragraph 6 above.
11

VII. THIRD CAUSE OF ACTION:

BREACH OF FIDUCIARY OBLIGATION

12 7.1 Defendants Mortgage One, and Tony Oh acted as mortgage brokers for the
13 Wheelers. In that capacity, they owed a fiduciary duty to the Wheelers regarding advice
14 about and the processing of their loan applications.
15

16 7.2 Defendant Fremont Investment & Loan, as the initial lender, also had
17 an affirmative obligation to ensure the Wheelers' interests were not adversely impaired in
18 this transaction and to engage in home-secured loans with them only if it reasonably
19 appeared that they could afford to maintain the ongoing payments for this loan.
20

21 7.3 Defendants Fremont Investment & Loan, Mortgage One, and Tony Oh
22 breached their fiduciary obligations to the Wheelers by causing them to secure an
23 oppressive loan on inequitable and unconscionable terms, and to incur unfair, unearned,
24 or unreasonable costs and fees.
25

26
27 SECOND AMENDED COMPLAINT
Page 17 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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7.4 As a direct and proximate result of Defendants' breach, the Wheelers have been injured in their monies, securities, and property in an amount to be proved at trial.

VIII. FOURTH CAUSE OF ACTION:

NEGLIGENCE MISREPRESENTATION

8.1 Defendants Fremont Investment & Loan, Mortgage One, and Tony Oh made false, inaccurate, and/or incomplete representations to the Wheelers in order to induce them to enter into these loans.

8.2 As a direct result, the Wheelers suffered substantial damages in an amount to be proved at trial.

IX. FIFTH CAUSE OF ACTION:

UNCONSCIONABILITY

9.1 Based on the facts alleged above, the contracts are unconscionable.

9.2 The Wheelers' developmental disabilities and the Wheelers' added reliance on the representations and actions of Defendants Fremont Investment & Loan, Mortgage One, and Tony Oh in the preparation of the terms and charges in the loan documents made this extension of credit procedurally unconscionable under Washington law.

9.3 In addition, the oppressive contract terms obtained by Defendants' superior bargaining power and knowledge to the severe detriment of the Wheelers are substantively unconscionable under Washington law.

SECOND AMENDED COMPLAINT
Page 18 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 9.4 Defendants' unconscionable representations, acts, and omissions have
2 caused the Wheelers to suffer damages in an amount to be proved at trial.
3
4

5 **X. SIXTH CAUSE OF ACTION:**
6
7 **CONSUMER PROTECTION ACT VIOLATIONS**
8

9 10.1 The conduct described above of Defendants Fremont Investment & Loan,
10 Mortgage One, and Tony Oh constitutes unfair and deceptive business practices in
11 violation of Chapter 19.86 R.C.W., occurred in trade or commerce, has the potential for
12 repetition and impacts the public interest, in violation of the Consumer Protection Act.
13
14

15 10.2 As a result of these unfair and deceptive practices, the Wheelers have been
16 injured in their Property in an amount to be proved at trial.
17
18

19 10.3 The Wheelers are entitled to actual damages, treble damages up to
20 \$10,000 and attorney fees and costs.
21
22

23 **XI. SEVENTH CAUSE OF ACTION:**
24
25 **INCAPACITY TO CONTRACT**
26

27 11.1 Because Cindy and Jeffrey Wheeler are developmentally disabled and
28 because the particular contract involved with the *Second Refinance* was a complex
agreement, the Wheelers lacked the capacity to contract.
29
30

31 11.2 As a result of their incapacity to contract, the two notes and deeds of trust
32 signed by the Wheelers and Fremont Investment & Loan for a loan of \$157,600 and
33 \$39,400 are invalid.
34
35

36 SECOND AMENDED COMPLAINT
37 Page 19 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
38

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44 Fax: (206) 398-4130

1
2 **XII. EIGHTH CAUSE OF ACTION:**
3
4

5 **AVOIDANCE OF LIENS AND CLAIMS**
6
7

8 12.1 The Wheelers, under the U.S. Bankruptcy Code, incorporate and reallege
9 all the foregoing paragraphs as if fully set forth herein.
10

11 12.2 The allegations in this eighth cause of action concern the administration of
12 the bankruptcy estate, the liquidation of assets and the validity, extent, or priority of liens
13 on the Property.
14

15 12.3 The Wheelers entered into a *Second Refinance* on their Property within
16 two months of their *First Refinance*.
17

18 12.4 The *Second Refinance* increased their prior mortgage from a \$165,000
19 loan at 8.99% with monthly payments of approximately \$1,326.45 plus taxes and
20 insurance to (1) a \$157,600 loan at 9.35% and (2) a \$39,400 loan at 12.99%. For each
21 loan, they provided a deed of trust to their home in favor of Fremont Investment & Loan.
22

23 12.5 In exchange for fees of \$19,377.09, of which \$12,315.04 went to closing
24 costs (including fees to Mortgage One for \$9,070.00 and to Fremont Investment & Loan
25 for \$999.00), and \$7,062.05 went to pay off a prepayment penalty of \$5,925.25 and
26 interest of \$1,136.80 associated with the *First Refinance*, the Wheelers netted a net cash
27 benefit of only \$12,443.27.
28

29 12.6 Their total monthly mortgage payment also increased from \$1,326.45 plus
30 taxes and insurance to \$1,970.49 including taxes and insurance.
31

32 SECOND AMENDED COMPLAINT
33 Page 20 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
34

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1 12.7 In the *Second Refinance*, the Wheelers signed an adjustable rate note for
2 \$157,600 at a rate of 9.35% for 360 months. This note included a prepayment penalty
3 with an initial monthly payment of \$1,307.98 plus taxes and insurance. They also signed
4 a fixed rate note for \$39,400 at a rate of 12.99% for 180 months. This note also included
5 a prepayment penalty and indicated a monthly payment of \$498.25. The combined
6 monthly payment was \$1,806.23 plus taxes and insurance of \$164.26 for an initial
7 payment of \$1,970.49.

8 12.8 Cindy Wheeler ceased working in December, 2001.

9 12.9 On the Wheelers' joint 2001 tax return, dated March 9, 2002, the
10 Wheelers show an adjusted gross income of \$51,696.00, or \$4,308 per month.

11 12.10 However, without Cindy's income, the Wheelers' monthly net income
12 went from approximately \$4,308 a month to less than \$2,000 a month at the time of the
13 loan applications.

14 12.11 The total monthly payment of \$1,970.49 after the *Second Refinance*
15 required almost all of the Wheelers' monthly net income which proved beyond their
16 ability to pay.

17 12.12 The Defendants have claims in this case, as defined in 11 U.S.C. §101(5),
18 arising from the *Second Refinance* as described in detail above in paragraphs 4.18
19 through 4.48.

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27 SECOND AMENDED COMPLAINT
28 Page 21 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

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1 12.13 On November 23, 2004 Defendant Litton filed a proof of claim in the
2 Wheelers' bankruptcy case for \$181,295.87 secured by a first deed of trust on the
3 Property.
4

5 12.14 The Wheelers did not receive reasonably equivalent value from the
6 lenders, Defendant Fremont Investment & Loan and/or Defendant Litton, in exchange for
7 the First Loan and the Second Loan on the Property within the meaning of RCW §
8 19.40.041.

9 12.15 Tony Oh of Mortgage One presented a completed application to the
10 Wheelers with a total monthly income of \$6,500.00 typed into Section V of the form for
11 both the First and Second Loan.
12

13 12.16 The loan applications for both the First Loan and the Second Loan did not
14 list an employer.
15

16 12.17 Mortgage One intended or reasonably should have known that the
17 Wheelers would be unable to pay the monthly mortgage payment and made the loan
18 anyway with reckless disregard to the Wheelers' financial situation. The *Second*
19 *Refinance* caused the Wheelers to incur debts beyond their ability to pay within the
20 meaning to RCW §19.40.041.
21

22 12.18 The First Loan and the Second Loan and the interests securing them are
23 avoidable, fraudulent transfers under the Washington Fraudulent Transfer Act, RCW §
24 19.40.041 and 11 U.S.C. §544(b)(1).
25

26 SECOND AMENDED COMPLAINT
27 Page 22 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO
28

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1 12.19 The Wheelers are owners of a homestead interest in the Property under
2 RCW §6.13.010.

3 12.20 The First Loan and Second Loan are avoidable transfers pursuant to 11
4 U.S.C. §544(b)(1) because the obligations are voidable under applicable law including
5 but not limited to violations of federal law under TILA, 15 U.S.C. §1601 et seq. and
6 HOEPA, 15 U.S.C. §1601 et seq., and under state contract law for unconscionability and
7 incapacity to contract as described in detail above.

8 12.21 If the claims of Defendant Fremont Investment & Loan and Defendant
9 Litton are avoided under 11 U.S.C. §544(b)(1) as alleged above in paragraphs 12.1
10 through 12.20, then the Wheelers may recover the values of those claims under 11 U.S.C.
11 §550.

12 **XIII. NINTH CAUSE OF ACTION:**

13 **DISALLOWANCE OF CLAIMS AND DECLARATORY JUDGMENT**

14 13.1. The Wheelers, under the U.S. Bankruptcy Code, incorporate and reallege
15 all the foregoing paragraphs as if fully set forth herein.

16 13.2 As part of the *Second Refinance*, the Wheelers signed two notes with
17 Fremont Investment & Loan on May 17, 2002. The note for the First Loan was for an
18 amount of \$157,600, and the note for the Second Loan was for \$39,400. For each loan,
19 they provided a deed of trust to their home in favor of Fremont Investment & Loan.

20 13.3 The First and Second Loan closed through McGrath Escrow on
21 May 24, 2002.

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27 SECOND AMENDED COMPLAINT
28 Page 23 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

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1 13.4 The First Loan was subsequently sold to Deutsche Bank National Trust
2 Company, as serviced by Defendant Litton, on or about May 30, 2002. The Second Loan
3 remained with Defendant Fremont Investment & Loan but was serviced by Defendant
4 Ocwen and is currently serviced by Wilshire Credit Organization Services.
5

6 13.5 Defendant Fremont Investment & Loan has a non-contingent, mature
7 claim as defined by 11 U.S.C. §101(5) against the Property.

8 13.6 Defendant Litton has filed a proof of claim on November 23, 2004 in the
9 Wheelers' bankruptcy case for \$181,295.87 secured by a first deed of trust on the
10 Property.

11 13.7 The Wheelers object to the claims of Defendant Fremont Investment &
12 Loan and Defendant Litton because their claims are unenforceable against the Wheelers
13 and property of the Wheelers, under applicable law pursuant to 11 U.S.C. §502(b)(1).

14 13.8 If the claims of Defendant Fremont Investment & Loan and Defendant
15 Litton are avoided under 11 U.S.C. §544(b)(1) as alleged above in paragraphs 12.1
16 through 12.19, then their claims are not allowable under 11 U.S.C. §502(d).

17 13.9 If the claims of Defendant Fremont Investment & Loan and Defendant
18 Litton are not allowable under 11 U.S.C. §502(d), then their liens are void under 11
19 U.S.C. §506(d).

20 13.10 The Wheelers seek a declaratory judgment pursuant to 28 U.S.C. §2201
21 that the claim of Defendants Fremont Investment & Loan that has not been filed in
22 bankruptcy case be disallowed.

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26 SECOND AMENDED COMPLAINT
27 Page 24 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

28
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34 Fax: (206) 398-4130

13.11 The Wheelers seek a declaratory judgment pursuant to 28 U.S.C. §2201 that the lien of Defendants Fremont Investment & Loan that has not been alleged in the bankruptcy case through a proof of claim be avoided.

**XIV. TENTH CAUSE OF ACTION:
EQUITABLE SUBORDINATION**

14.1 The Wheelers, under the U.S. Bankruptcy Code, incorporate and reallege all the foregoing paragraphs as if fully set forth herein.

14.2 Defendants Mortgage One, Fremont Investment & Loan and Litton breached their fiduciary duty as alleged above in paragraphs 7.1 through 7.4 and engaged in fraudulent and inequitable conduct in their involvement in the *Second Refinance* on the Wheelers' Property as alleged in paragraphs 4.1 through 4.51.

14.3 The actions of Defendants Mortgage One, Fremont Investment & Loan and Litton caused the Wheelers to decrease their equity in the Property without adequate consideration which resulted in injury to the Wheelers, their creditors, and/or an inordinate advantage over other creditors.

14.4 Principals of equitable subordination require that the full claims as defined by 11 U.S.C. §101(5) of Defendants Fremont Investment & Loan and Litton be subordinated to the claims of the general unsecured creditors pursuant to 11 U.S.C. §510(c).

XV. RELIEF REQUESTED

WHEREFORE, the Wheelers respectfully request that the Court:

SECOND AMENDED COMPLAINT
Page 25 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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1 15.1 Declare that the Wheelers' mortgage transactions with Defendants
2 Fremont Investment & Loan, Deutsche Bank National Trust, or Litton Loan Servicing LP
3 are rescinded;

4 15.2 Declare that any mortgage and other security interest held by Defendants
5 Fremont Investment & Loan, Deutsche Bank National Trust, or Litton Loan Servicing LP
6 on the Wheelers' home is void and unenforceable;

7 15.3 Permanently enjoin any foreclosure action based on the loans and deeds of
8 trust referred to above.

9 15.4 Avoid the obligations to Defendants Fremont Investment & Loan,
10 Deutsche Bank National Trust and Litton and invalidate the concomitant liens under the
11 Bankruptcy Code.

12 15.5 Declare and order that the claims of Defendants Fremont Investment &
13 Loan, Deutsche Bank National Trust and Litton be equitably subordinated to the claims
14 of the general unsecured creditors.

15 15.6 Award the Wheelers' actual damages for the unlawful acts of Defendants
16 Fremont Investment & Loan, Mortgage One, Deutsche Bank, and Litton Loan Servicing
17 LP in an amount to be determined at trial, including, but not limited to the return of all
18 amounts paid to the Defendants by the Wheelers in the mortgage loan transaction;

19 15.7 Award the Wheelers treble damages under the Consumer Protection Act,
20 and statutory damages for the Defendants' violations of other federal or state laws;

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26 SECOND AMENDED COMPLAINT
27 Page 26 of 27 Bank. No. 04-23643 & Advers. No. 04-01550-KAO

28
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15.8 Award the Wheelers the costs of this action and a reasonable attorney's fee;

15.9 Enjoin the Defendants, pursuant to Chapter 19.86 R.C.W., from engaging in future unfair and deceptive acts or practices of the type described herein; and

15.10 Provide such other relief as to the Court may deem just and equitable.

DATED this 22nd day of March, 2005.

RONALD PETERSON LAW CLINIC

By Betsy Hollingsworth
Betsy Hollingsworth, WSBA #6181
Attorneys for Debtors/Plaintiffs

SECOND AMENDED COMPLAINT
Page 27 of 27 Bank.No. 04-23643 & Advers. No. 04-01550-KAO

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RONALD A. PETERSON LAW CLINIC**
1112 E. Columbia
Seattle, Washington 98122-4340
Phone: (206) 398-4130